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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

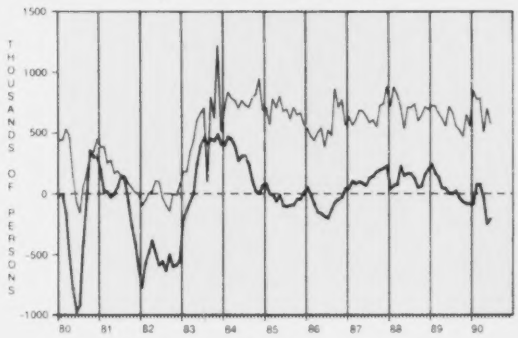
Monetary Ease Delayed

Summer doldrums aptly describe not only weather patterns throughout large swaths of the Northern Hemisphere at this time of year, but increasingly the pace of business as well. With jobs growth slowing and widely-publicized layoffs in a number of industries mounting, consumer confidence and spending are beginning to erode, commercial and residential construction is poised to plumb new depths, the manufacturing sector is posting uneven gains at best, and state and local governments are in the process of substantial belt tightening. Yet, while the risks of an unanticipated business downturn have increased, the Federal Reserve is hanging tough, refusing to be goaded into even a modest loosening of the monetary reins. The central bank's policy-setting Federal Open Market Committee undoubtedly broke little new ground at its early-July meeting, reaffirming that the overarching objective of the Fed is to reduce inflation pressures further, barring conclusive evidence of a pronounced unraveling of the economy.

It had been hoped that the June employment numbers would provide such evidence. For months, jobs creation had been slowing to a crawl, not only in the hard-pressed goods-producing industries but also in the formerly buoyant services industries as well. However, as is often the case with these over-analyzed economic statistics, the June jobs report settled little, containing as it did a sufficient number of ambiguities to justify further fence straddling by the Fed, perhaps biasing policy toward ease, but imperceptibly so. According to the Labor Department, nonfarm payroll employment increased by a paltry 40,000 persons in June. With one exception, this was the smallest monthly increase in payroll employment in four years. Even after taking into account the dismissal of 55,000 temporary Census Department employees, jobs growth in June was still indisputably sluggish, running well below the pace of a year earlier.

Nor did the hemorrhage of jobs in the goods-producing industries abate. Another 43,000 jobs disappeared in June, the bulk of which were factory jobs, bringing the total employment loss in these industries to 209,000 during the second quarter. This marked the sharpest quarterly loss since the depths of the 1981-82 recession (see chart). And, although the factory workweek was unchanged at a solid 41 hours, and recent increases in factory orders and shipments have been cited as harbingers of a manufacturing rebound, the continuing attrition of manufacturing employment tends to belie these claims. So, too, does the Labor Department diffusion index, which measures the proportion of industries reporting jobs gains. In June, only 42 percent did so, the smallest proportion this year.

NONFARM PAYROLL EMPLOYMENT:
GOODS-PRODUCING (THICK) VS. SERVICE-PRODUCING (THIN)
(3-MO. ABSOLUTE CHANGE)



Source: Bureau of Labor Statistics

A Listless Economy

Taken by themselves, the June employment data largely lent support to those both inside and outside the central bank who have been urging a turn toward monetary ease to counter the economy's listlessness. However, two additional pieces of the employment report did not. For one thing, the initially-reported increase in payroll employment in May was revised substantially higher, primarily due to a larger-than-first reported surge in temporary Census Department workers. For another, the unemployment rate in June actually dipped a bit, to 5.2 percent, from 5.3 percent in May, a development which reinforced the view that while the economy may be softening and jobs creation withering, labor market conditions remain unusually tight. This seeming paradox traces to a decided slowing of the growth of the labor force, due to both demographic trends—

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namely, a shrinking pool of younger, entry-level workers and a smaller number of women entering the work force—and an unusual dip in the labor force participation rate—those actively looking for work—among middle-aged adult men.

In the absence of a clear-cut reading of labor market conditions, the Fed believes that its hands are tied, fearing that wage pressures might materialize at any point. However, the emphasis has to be on the threat, rather than the reality of an inflation-fueling wage spiral. Average hourly earnings growth is still locked into a tight, 3½ to four percent range, exactly where it was when the Fed eased monetary policy toward the end of last year. What is more, earnings growth in manufacturing is even slower than in the economy as a whole, with little threat of acceleration as long as jobs keep vanishing. This should guarantee the stability of unit labor costs, a key determinant of longer-run inflation rates.

Bond Market Frustration

Of course, many of these same arguments, and such others as the notable absence of so-called "pipeline" inflation and the leveling of com-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/27/90)	212,448	- 818	- 4,387
New York City (7/4/90)	39,934	+ 1,294	- 3,803
Commercial Paper (7/4/90)	541,004	- 1,584	+ 38,953

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/27/90)	321,997	- 1,319	+ 7,902
New York City (7/4/90)	57,403	+ 577	+ 1,189

Total Loans and Leases Gross Adjuste

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/27/90)	1,011,808	- 4,367	+ 47,813
New York City (7/4/90)	180,398	- 116	+ 1,794

Financial Markets

	Friday 7/13/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.81%	- .17	- .24
180-Day Bills†	7.89	- .19	- .13
Longest Bills†	7.89	- .23	+ .06
Recent Issues:			
8¾s 6/30/92	8.11	- .22	
8½s 6/30/94	8.29	- .14	
8⅞s 5/15/00	8.44	- .06	
8¾s 5/15/20	8.45	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (7/12/90)	7.21%	- .03	+ .29
Blue List Total ($ Million)	$ 984	- $ 24	- $ 130
30-Day Visible Supply ($ Million)	$2,284	- $353	- $ 627
Total	$3,268	- $377	- $ 757
Corporates:			
Moody's Aa Composite (7/12/90)	9.52	+ .07	+ .39
30-Day Visible Supply ($ Million)	$ 970	- $250	- $1,780
Stocks:			
Dow-Jones Averages:			
Industrials	2,980.20	+ 75.25	+425.38
Transportation	1,187.59	+ 46.90	- 22.95
Utilities	206.18	+ .07	- 10.68
65 Stocks	1,059.51	+ 27.23	+ 71.01
N.Y.S.E. Composite Index	200.33	+ 4.55	+ 15.28
N.Y.S.E. Avg. Daily Vol. for Week (000's)	171,955	+ 46,880	+10,721

*34% Taxable equivalent 10.92%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/13/90	Week Ago
Overnight	8.19%	8.25%
1 month	8.13	8.25
3 month	8.13	8.25
6 month	8.19	8.31
1 year	8.31	8.38

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/13/90)	Currency Per U.S. $	Week Ago
Belgium	33.84	33.97
Canada	1.1574	1.1629
France	5.5140	5.5450
Germany	1.6430	1.6520
Italy	1203.50	1212.00
Japan	147.45	150.95
Mexico	2833.80	2828.20
Netherlands	1.8523	1.8603
South Korea	710.43	707.87
Switzerland	1.3940	1.3985
Taiwan	26.72	26.74
U.K.*	1.8080	1.7850

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/13/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	-4.4%

modities prices, could have been made for months now. But, while the economic environment seems to favor lower interest rates, and is outwardly friendly toward the bond markets, many participants have thrown in the towel, finding few reasons to hold bonds in today's economic vacuum. Not even an apparent shift in the Administration's stance on the possible need for new taxes, and with it the slightly enhanced prospect of achieving a meaningful Federal budget deficit reduction accord could cause more than a brief upward blip in bond prices.

Traders and investors have instead focused on the endless, and growing supply of new Treasury offerings, in part to satisfy the working capital needs of the Resolution Trust Corporation, and in part to finance the widening Federal deficit. The thrift institution bail-out has already cost some $25 billion since last summer, and some estimates of the fiscal 1990 Federal deficit are now ranging as high as $200 billion, threatening to lift Treasury borrowings to their highest level since the mid-1980s. Under these circumstances, it looks as if the dog days of summer have hit the financial markets, as well as the Northern Hemisphere. Relief, in both instances, may still be weeks away. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/11/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	240.857	+ 3.135	+ 6.865
Loans to Depository Inst.	.575	- .011	- .086
Float	.928	+ .037	- .235
Total Reserve Bank Credit	282.798	+ 3.169	+16.642
Treasury Deposits with Federal Reserve Banks	5.973	+ .393	- .335
Currency in Circulation	270.006	+ 2.264	+18.645
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	226.749	- .320	- 5.598
Member Bank Reserves:	7/11/90		
Total Reserves Held	60.324	+ .864	+ .564
Excess (Deficiency)	.841	- .176	- .149
Net Free Reserves	.442	- .192	+ .023

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (7/2/90)	818.2	+ 3.0	+ 4.8
M2 (7/2/90)	3,276.1	+ 0.5	+ 5.3
M3 (7/2/90)	4,058.0	- 0.3	+ 1.7
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/13/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.61%	7.54%	7.39%
* Federal Agencies	8.15	8.20	8.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.33	8.71	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.18	8.23	8.28

‡ Finance Company Paper–Prime

5- 14 days	8.13%
15- 29 days	8.10
30- 59 days	8.05
60- 89 days	8.00
90-179 days	7.88
180-239 days	7.75
240-270 days	7.75

‡* Bankers' Acceptances

Aug.	8.13%
Sep.	8.03
Oct.	7.98
Nov.	7.92
Dec.	7.87
Jan.	7.83

‡ Industrial Paper–Prime

30- 89 days	8.13%
90-120 days	8.00

†Federal Funds Effective Rate 8.06%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'90	$ 5,433	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st Q'90	$ 4,193	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st Q'90	1.9	1.1	3.7
Change in Consumer Prices*	May '90	2.4 %	2.4%	4.8%
Change in MH Cost of Living Index*	May '90	2.4 %	1.2%	7.2%
Change in Producer Prices*	Jun '90n	2.4 %	3.6%	1.2%
Civilian Employment (Thousands of Persons) †	Jun '90n	118,389	118,350	117,542
Unemployment as % of Civilian Labor Force †	Jun '90n	5.2%	5.3%	5.3%
Personal Income*	May '90	$ 4,701	$ 4,687	$ 4,396
Leading Indicators Composite Index (1967=100) †	May '90	146.2	145.1	144.2
Industrial Production Index (1977=100) †	May '90	109.7	109.0	108.3
Net Change in Consumer Installment Credit †	May '90n	$ 3.91	$ 0.39r	$ 4.20
U.S. Merchandise Trade Balance †	Apr '90	- $ 6.94	- $ 8.36	- $ 7.65
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	May '90	1,207	1,224	1,341
New Construction Expenditures*	May '90n	$ 445.6	$ 447.2r	$ 434.7r
Total Business Inventories †	Apr '90	$ 794.5	$ 793.7	$ 772.9
Total Business Sales †	Apr '90	$ 533.0	$ 539.0	$ 523.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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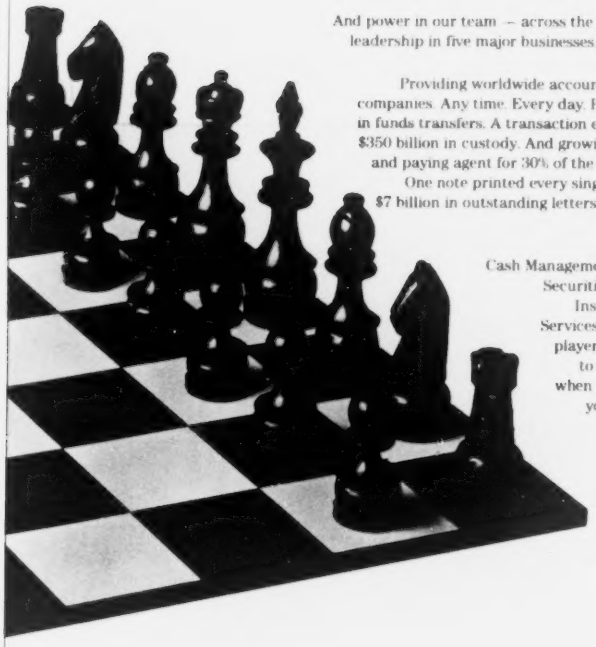
Leadership

There's Strength In Our Numbers — Across The Board.



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